



OFFICE OF THE SECRETARY OF DEFENSE

1000 DEFENSE PENTAGON
WASHINGTON, DC 20301-1000



FEB 15 2000

MEMORANDUM FOR: SEE DISTRIBUTION

SUBJECT: Defense Working Capital Fund Task Force

The Defense Working Capital Fund (DWCF) Task Force was established on August 20, 1998, to propose changes for improving the delivery of goods and services to DWCF customers. Recommendations for 11 key issues were developed, and the Deputy Secretary of Defense approved 10 for implementation. The Principal Deputy Under Secretary of Defense (Comptroller) made these decisions available on January 31, 2000.

The Deputy Secretary requested additional information related to the unresolved recommendation, which addresses stabilized billing rates. Based upon the information provided, the Deputy Secretary decided to expand the use of quarterly rate adjustments to the Components' Information Services Activity Groups. The formal issue and decision are attached. This decision does not alter or change previously approved A-76 initiatives or other reorganizations approved for specific Component Central Design Agents.

As you may recall, the concept of quarterly rate adjustments was originally addressed in PBD 437 dated December 11, 1997, and currently applies only to the Depot Maintenance Activity Groups. Under the quarterly rate adjustment procedures, if an activity group experiences significant unbudgeted losses resulting in year end net operating results that would vary from the budget by more than \$10 million, then a projected surcharge must be applied to the existing stabilized rate to adjust for the difference in the year of execution. The decision to impose the surcharge is made based upon information provided in the quarterly DWCF execution reviews. This expansion in policy will provide a more immediate response to operating losses or gains and should incentivize managers to monitor operations more closely and adjust for cost increases within the Information Services Activity Groups.

Stan Z. Soloway
Director, Defense Reform
Executive Steering Group Co-chair

Alice C. Maroni
Principal Deputy Under
Secretary of Defense (Comptroller)
Executive Steering Group Co-chair

Attachment:
As stated



DEFENSE WORKING CAPITAL FUND TASK FORCE RECOMMENDATIONS

Issue B: *Fluctuating Prices.* Should DWCF rates be destabilized and parameters established for price and/or changes?

Recommendation:

- Maintain the status quo. Both price decreases and increases cause problems. Increases disrupt the benefits of stabilized pricing to flying hour programs (and others). Decreases would risk voiding DoD's stable price protection with Congress.

Decision:

- Approved except extend quarterly rate adjustments to Central Design Agents.